

**REPORT OF THE AUDITOR-GENERAL TO THE PROVINCIAL LEGISLATURE AND  
THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE  
INFORMATION OF THE MOOKGOPHONG MUNICIPALITY FOR THE YEAR ENDED  
30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I was engaged to audit the accompanying financial statements of the Mookgophong Municipality which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages .

**The accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Statements of Generally Recognised Accounting Practice (Statements of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**The Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
4. Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Mookgophong Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

### **Basis for disclaimer of opinion**

#### **Corresponding figures**

5. The following findings that were identified in the previous year have not been resolved:
6. Loans and receivables amounting to R1.1 million.
7. Trade receivables R753 609
8. Trade payables R3.9 million.
9. Bank balance and cash (outstanding cheques) amounting to R602 616.
10. Reserves amounting to R1.8 million.
11. Leave provision amounting to R3.5 million.
12. Unspent conditional grants of R1.3 million.
13. Investments R704 971

#### **Property, plant and equipment**

14. Assets with a carrying amount of R47.7 million included in the balance of property, plant and equipment of R86.1 million as disclosed in the statement of financial position could not be physically verified. Consequently, I was unable to conclude on whether the property, plant and equipment on the statement of financial position do exist. The municipality's records did not permit the application of alternative audit procedures.
- 15.1

#### **General expenses**

16. Transport expenses amounting to R901 602 could not be substantiated. The municipality's records did not permit the application of alternative audit procedures. I was therefore unable to verify that the recorded expenditure is accurate and represents all expenses that occurred in the financial year.
17. I was unable to conclude on whether operating expenses amounting to R701 325 have been recorded in the correct account to which it pertains. The municipality's records did not permit the application of alternative audit procedures.
18. Expenses and allocations of non-routine transactions amounting to an estimated R8.5 million could not be substantiated. I was therefore unable to verify that the recorded expenditure is accurate and represents all expenses and non-routine transactions that occurred in the financial year. The municipality's accounting records did not allow me to perform alternative procedures.

### **Value Added Tax (VAT)**

19. VAT refundable to the amount of R1.9 million as disclosed in note 4 to the financial statements could not be substantiated. Alternative audit procedures could not be performed to confirm the VAT refundable balance and as a result I could not satisfy myself that all the VAT refundable balance has been recorded at an appropriate amount.

### **Provisions**

20. The municipality had not created a provision for the restoration of landfill sites which is required in terms of *GRAP 19 - Provisions, contingent liabilities and contingent assets* and *GRAP 17 - Property plant and equipment*. The lack of information did not permit the application of alternate audit procedures and consequently the impact on provisions and property, plant and equipment as disclosed in the financial statements could not be determined.

### **Revenue**

21. An irreconcilable difference of R3.9 million was identified between the billing report and the general ledger of property rates and service charges as disclosed in notes 14 and 15 to the financial statements.
22. VAT refund received from the receiver of revenue was incorrectly accounted for as revenue by the municipality. This resulted in revenue being overstated by R2.2 million.

### **Cash flow statement**

23. The following inconsistencies were noted on the cash flow statement and as a result the cash flow statement contains material inconsistencies:
24. The contribution to the doubtful debts provision of R3.4 million was not added back as a non cash item on note 25 to the financial statements. In addition this resulted in the increase in consumer debtors being understated by said amount.
25. Cash receipts from rate payers, government and others of R64.2 million was overstated by R1.7 million.

### **Accounts receivables**

26. I was not provided with supporting documentation for Suspense accounts amounting to R1.1 million. The municipality's accounting records did not allow me to perform alternative procedures.

### **Reserves**

27. I was not provided with an analysis of the previous year's adjustments amounting to R2 million as disclosed in the statement of changes in net assets under accumulated surplus in the current year. As a result I am uncertain as to the nature of the error and whether it relates to the correction of the prior year errors in terms of GRAP3.
28. Adjustments to an amount of R52 million made to the accumulated reserves could not be verified as the municipality could not provide relevant supporting documentation for these adjustments. As a result the reserves are overstated by said amount. The municipality's accounting records did not allow me to perform alternative procedures.

### **Inventories**

29. An irreconcilable difference of R1.3 million exists between the total value of the inventory count results and the amount in the general ledger. The municipality's accounting records did not allow me to perform alternative procedures.

### **Trade and other payables**

30. Supporting documentation in respect of creditors to the amount of R6.6 million were not submitted for audit purposes. I was therefore unable to confirm whether these creditors exist. The municipality's accounting records did not allow me to perform alternative procedures.

### **Cash and cash equivalents**

31. The comparative (prior year) amounts for Cash and cash equivalents disclosed on the statement of financial position differs with an amount of R5.8 million from the amount disclosed in the cash and cash equivalents, note 2 to the financial statements. Management could not provide reasons for this difference and the municipality's accounting records did not allow me to perform alternative procedures.

### **Accumulated surplus**

32. Generally Recognised Accounting Practise, GRAP 3 *Accounting Policies, Changes in Accounting Estimates and Errors*, states that an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery. It is also stated that if the error occurred before the earliest prior period presented, the opening balances of assets, liabilities and net assets for the earliest prior period shall be restated. The prior year corrections, as referred to in paragraph 21 above, amounting to R2.2 million were incorrectly accounted and disclosed as 'previous years adjustments' and was directly credited to accumulated surplus in the current year.

33.

#### **Disclaimer of opinion**

34. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

#### **Emphasis of matters**

Without qualifying my opinion, I draw attention to the following matters:

##### **Fruitless and wasteful expenditure**

35. As disclosed in note 29 to the financial statements, fruitless and wasteful expenditure amounting to R155 690 has been incurred due to penalties on the late submission of VAT returns, payments regarding a cancelled contract and interest charged for late payments.

#### **Other matters**

Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

##### **Other information included in the annual report**

36. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

##### **Unaudited supplementary schedules**

37. The supplementary information set out on pages to does not form part of the financial statements and is presented as additional information. I have not audited this and accordingly I do not express an opinion thereon.

#### **Non-compliance with applicable legislation**

38. In terms of section 122(3) of the MFMA, the annual financial statements must be prepared in accordance with generally recognised accounting practice as determined by the Accounting Standards Board. The municipality has not provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, as prescribed by GRAP 1 *Presentation of Financial Statements*.

#### **Governance framework**

39. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

##### **Internal control deficiencies**

40. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system of internal control. (The number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

Par. No.	Basis for disclaimer opinion	CE	RA	CA	IC	M
5	Corresponding figures	5	4	3	1	2
6-7	Property, plant and equipment	5	4	2,3	3	2,3
8-10	General expenses	5	4	3	3	1
11	Value Added Tax (VAT)	5	4	3	1,3	1
12	Provisions	7	1	3	1	2
13-14	Revenue	5	4	5	3	1
15-17	Cash flow statement	5	1	4	3	1
18	Accounts receivables	5	1	3	3	1
19-20	Reserves	5	4	2,3	3	2,3
21	Inventories	5	1	3	1,3	1
22	Trade and other payables	5	1	3	1,3	1
23	Cash and cash equivalents	5	1	3	1,3	1
24	Accumulated Surplus	5	1	3	1,3	1

41. The basis of my opinion is due to the fact that the accounting officer did not ensure that there is a proper registry system in place where the documents are stored and retrieved for audit and other purposes.

42. The municipality did not adequately review the financial statements prepared prior to submitting them for audit.

Legend	
<b>CE = Control environment:</b>	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
<b>RA = Risk assessment:</b>	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3

The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
<b>CA - Control activities</b>	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
<b>IC - Information and communication</b>	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
<b>M - Monitoring</b>	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self-assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

#### Matters of governance

43. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		✓
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		✓
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines (section 126 of the MFMA).	✓	
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.		✓
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6.	Shared audit committee		

No.	Matter	Y	N
	<ul style="list-style-type: none"> <li>The municipality had an audit committee in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The audit committee operates in accordance with approved, written terms of reference.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</li> </ul>	✓	
7.	Internal audit		
	<ul style="list-style-type: none"> <li>The municipality had an internal audit function in operation throughout the financial year.</li> </ul>		✓
	<ul style="list-style-type: none"> <li>The internal audit function operates in terms of an approved internal audit plan.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>		✓
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		✓
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		✓
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.	✓	
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	✓	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.		✓
<b>Issues relating to the reporting of performance information</b>			
14.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		✓
15.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓
16.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Mookgophong Municipality against its mandate, predetermined objectives, outputs, indicators and targets (section 68 of the MFMA).	✓	
17.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

44. Management did not ensure that information required for audit purposes was submitted timeously.

45. Due to a lack of appropriate skills in the finance section, a consultant was appointed to compile the annual financial statements. However, also as a result of the mentioned lack of skills, a proper quality review of the financial statements could not be performed prior to submission for audit purposes.

46. Some senior managers were often not available during the audit and explanations could not always be provided by the accounting officer for their absence.

47. The internal auditor resigned during the year and was not replaced.



## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Report on performance information**

48. I was engaged to review the performance information.

### **The accounting officer's responsibility for the performance information**

49. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

### **The Auditor-General's responsibility**

50. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

51. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

52. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

### **Findings on performance information**

#### **Non-compliance with regulatory requirements**

53. Internal auditing of performance measurements

54. Mookgophong municipality did not develop and implement mechanisms, systems and process for auditing the results of performance measurements as part of its internal audit process, as required in terms of section 45 of the MSA.

#### **No reporting of performance information**

55. The municipality did not submit an annual report which includes the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the MSA, as required by section 121(3)(c) of the MFMA.

#### **Lack of adoption of performance management system**

56. The municipality did not adopt a framework that describes and represents how the municipality's cycles and processes of performance planning, monitoring, measurements, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in

terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

#### **APPRECIATION**

57. The assistance rendered by the staff of the Mookgophong Municipality during the audit is sincerely appreciated.

Polokwane

30 April 2010



**AUDITOR-GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*